

CITY OF WEST LIBERTY
West Liberty, Iowa
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

NEWS RELEASE

Contact:

FOR RELEASE _____

Taylor, Rees, Beckey & Co. P.C. today released an audit report on the City of West Liberty, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's revenues totaled \$6,772,816 for the year ended June 30, 2004, an .5039 percent increase from the prior year. Revenues included \$723,315 in property tax, \$150,638 for tax increment financing revenues, \$4,965,660 from charges for service, \$72,000 from operating grants, contributions and restricted interest, \$314,388 from local option sales tax, \$117,376 from unrestricted investment earnings, \$20,853 from licenses and permits and \$408,856 from other general revenues.

Expenses for City operations totaled \$5,808,069. Expenses included \$476,710 for public safety, \$332,509 for culture and recreation, \$110,102 for public works, \$7 for community and economic development, \$85,690 interest on long term debt and \$195,386 for general government. Expenses for business type activities totaled \$4,607,665.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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JUNE 30, 2004

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**CITY OF WEST LIBERTY
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Phelps	Mayor	Jan 2006
Clifford McFerren	Mayor Pro tem	Jan 2006
Todd Leach	Council Member	Jan 2008
William Cline	Council Member	Jan 2008
Chad Thomas	Council Member	Jan 2008
Marvin Dalton	Council Member	Jan 2006
Karen A. Thurness	Deputy Clerk	Jan 2006
Connie S. Black	Treasurer	Jan 2006
Hank J. Priest	Chief of Police	Appointed
Curt Newcomb	Fire Chief	Appointed
Chris Ward	City Manager	Appointed

CITY OF WEST LIBERTY

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Liberty, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of West Liberty's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Liberty at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 22 to the financial statements, for the year ended June 30, 2004, the City of West Liberty adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2004 on our consideration of the City of West Liberty internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 49 and 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

TAYLOR, REES, BECKEY & CO., P.C.
Certified Public Accountants

September 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of West Liberty provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City of West Liberty is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased .5039%, or approximately \$33,959, from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$61,770.

Program expenses totaled \$5,808,069. Expenses included \$476,710 for public safety, \$332,509 for culture and recreation, \$195,386 for general government and \$4,607,665 for business type activities.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City of West Liberty as a whole and present an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City of West Liberty's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government -wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water, the sanitary sewer system, electric system and the City's solid waste department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

(2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Sewer, Electric and Solid Waste Funds, with Water, Sewer and Electric considered to be major funds of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

	Net Assets <u>June 30, 2004</u>		
	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Current and other assets	\$ 2,544,688	7,016,404	9,561,092
Capital assets	<u>5,741,008</u>	<u>16,572,827</u>	<u>22,313,835</u>
Total assets	<u>8,285,696</u>	<u>23,589,231</u>	<u>31,874,927</u>
Long-term liabilities	1,712,704	6,708,615	8,421,319
Other liabilities	<u>322,481</u>	<u>374,558</u>	<u>697,039</u>
Total liabilities	<u>2,035,185</u>	<u>7,083,173</u>	<u>9,118,358</u>
Net assets:			
Invested in capital assets, net of related debt	4,028,304	2,492,988	6,521,292
Restricted	257,464	2,846,871	3,104,335
Unrestricted	<u>1,964,743</u>	<u>11,166,199</u>	<u>13,130,942</u>
Total net assets	<u>\$ 6,250,511</u>	<u>16,506,058</u>	<u>22,756,569</u>

Net assets of governmental activities decreased from FY03 by approximately \$72,955, or 3.17%. Net assets of business type activities decreased from FY03 by approximately \$239,714, or 1.43%. The largest portion of the City's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$13,130,942 at the end of this year.

Changes in Net Assets
Year ended June 30, 2004

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for service	\$ 100,005	4,865,655	4,965,660
Operating grants, contributions and restricted interest	72,000		72,000
General revenues:			
Property tax levied for:			
General purposes	723,315		723,315
Tax increment financing revenues	150,638		150,638
Local option sales tax	314,388		314,388
Intergovernmental	303,091		303,091
Licenses & permits	20,583		20,583
Unrestricted investment earnings	30,080	87,296	117,376
Miscellaneous	105,765	-	105,765
Total revenues	<u>1,819,865</u>	<u>4,952,951</u>	<u>6,772,816</u>
Program expenses:			
Public safety	476,710		476,710
Public works	110,102		110,102
Culture and recreation	332,509		332,509
Community and economic development	7		7
General government	195,386		195,386
Interest on long-term debt	85,690		85,690
Water		342,302	342,302
Sewer		1,021,153	1,021,153
Electric		3,067,249	3,067,249
Solid Waste	-	176,961	176,961
Total expenses	<u>1,200,404</u>	<u>4,607,665</u>	<u>5,808,069</u>
Transfers	585,000	(585,000)	-
Increase in net assets	1,204,461	(239,714)	964,747
Net assets beginning of year (as restated)	<u>5,046,050</u>	<u>16,745,772</u>	<u>21,791,822</u>
Net assets end of year	<u>\$ 6,250,511</u>	<u>16,506,058</u>	<u>22,756,569</u>

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As City of West Liberty completed the year, its governmental funds reported a combined fund balance of \$2,222,207, which is less than the \$2,295,162 total fund balance at June 30, 2003. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a decline of \$144,052 from the prior year to \$1,306,525.

The Capital Projects Fund ended fiscal 2004 with a \$114,995 balance compared to the prior year ending balance of \$183,379. The fiscal 2004 deficit is a result of project costs exceeding available funds. The deficit will be eliminated through future transfers from other funds.

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2004 with a \$2,259,026 net asset balance compared to the prior year ending net asset balance of \$2,475,672.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended fiscal 2004 with a \$5,070,888 net asset balance compared to the prior year ending net asset balance of \$5,222,707.

The Electric Fund, which accounts for the operation and maintenance of the City's electrical system, ended fiscal 2004 with a \$8,940,922 net asset balance compared to the prior year ending net asset balance of \$8,830,637.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of West Liberty amended its budget one time. The amendment was done in 2004. These amendments were needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

Even with these amendments, the City exceeded the budgeted amount in the general government function for the year ended June 30, 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$5,741,008 (net of accumulated depreciation) at June 30, 2004. Capital assets for business type activities totaled \$16,572,827 (net of accumulated depreciation) at June 30, 2004. See Note 3 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included the downtown brick street project.

For business type activities, major additions included a renovation of the electric utility buildings and system.

Long-Term Debt

At June 30, 2004, the City had \$1,712,704, in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business type activities was \$6,557,280 at June 30, 2004.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several economic factors affected decisions made by the City of West Liberty in setting its fiscal 2005 budget. The City of West Liberty will experience a significant change in General Fund revenues and expenditures from fiscal year 2004 to fiscal year 2005. The major factors that will

play a role in this change are the in intergovernmental revenue and the property valuation for fiscal 2005 in which the State of Iowa has issued the Assessment Limitation Order to be 48% for residential property.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index (CPI) increase. The State of Iowa CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due, in part, to the slowing of the residential housing market state wide and the increase in energy prices has also been a major influence on this budget. City staff and management could not anticipate the dramatic increase in fuel cost for this budget year.

The General Fund is projected to end fiscal year 2005 with a fund balance of approximately \$902,427, a 22.37% decrease from fiscal year 2004.

The tax levy rates per \$1,000 of taxable valuation for fiscal year 2005 are provided below:

General levy	\$ 8.10
Debt Service levy	\$ 0.91
Tort Liability	\$ 0.95
Employee Benefits	\$ 2.19
Emergency Levy	<u>\$ 0.27</u>
Total	<u>\$12.42</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the City Manager, Mr. Chris Ward, City of West Liberty, 409 N. Calhoun Street, West Liberty, Iowa 52776 or by telephone at (319) 627-2418.

Basic Financial Statements

City of West Liberty
Statement of Net Assets
June 30, 2004

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 2,400,490	2,553,928	4,954,418
Receivables:			
Property tax	16,790		16,790
Accounts	9,898	673,987	683,885
Accrued interest	388	8,081	8,469
Due from other governments	5,750		5,750
Due from other funds	68,727	90,000	158,727
Inventories		134,203	134,203
Prepaid Expenses	42,645	170,465	213,110
Restricted assets:			
Cash and pooled investments		3,385,740	3,385,740
Capital assets (net of accumulated depreciation)	<u>5,741,008</u>	<u>16,572,827</u>	<u>22,313,835</u>
Total assets	<u>8,285,696</u>	<u>23,589,231</u>	<u>31,874,927</u>
Liabilities			
Accounts payable	133,331	340,813	474,144
Salaries and benefits payable	29,956	9,496	39,452
GO Bonds payable current plus interest		20,238	20,238
Due to other governments	467	4,011	4,478
Due to other funds	158,727		158,727
Long-term liabilities:			
Portion due or payable within one year:			
Customer deposits		55,793	55,793
General obligation bonds/notes	205,169		205,169
Revenue notes payable		480,000	480,000
Accrued interest payable		58,869	58,869
Portion due or payable after one year:			
General obligation bonds/notes (net of unamortized discount)	1,507,535	147,600	1,655,135
Revenue notes payable		5,910,000	5,910,000
Bank note payable	<u>-</u>	<u>56,353</u>	<u>56,353</u>
Total Liabilities	<u>2,035,185</u>	<u>7,083,173</u>	<u>9,118,358</u>

City of West Liberty
Statement of Net Assets

June 30, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	4,028,304	2,492,988	6,521,292
Restricted for:			
Debt service	257,464		257,464
Revenue note retirement		894,896	894,896
Other purposes		1,951,975	1,951,975
Unrestricted	<u>1,964,743</u>	<u>11,166,199</u>	<u>13,130,942</u>
Total net assets	<u>\$ 6,250,511</u>	<u>16,506,058</u>	<u>22,756,569</u>

See notes to financial statements.

City of West Liberty
Statement of Activities
Year ended June 30, 2004

Functions / Programs:	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Primary Government:			
Governmental activities:			
Public safety	\$ 476,710	58,859	
Public works	110,102		
Culture and recreation	332,509	41,146	72,000
Community and economic development	7		
General government	195,386		
Interest on long-term debt	85,690	-	-
Total governmental activities	<u>1,200,404</u>	<u>100,005</u>	<u>72,000</u>
Business type activities:			
Water	342,302	307,035	
Sewer	1,021,153	1,045,302	
Electric	3,067,249	3,319,516	
Solid Waste	176,961	193,802	-
Total business type activities	<u>4,607,665</u>	<u>4,865,655</u>	<u>-</u>
Total Primary Government	<u>\$ 5,808,069</u>	<u>4,965,660</u>	<u>72,000</u>

General Revenues:

Property and other city tax levied for:

- General purposes
- Tax increment financing
- Local option sales tax
- Intergovernmental
- Licenses & permits
- Unrestricted investment earnings
- Miscellaneous

Total general revenues

Transfers

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
(417,851)		(417,851)
(110,102)		(110,102)
(219,363)		(219,363)
(7)		(7)
(195,386)		(195,386)
(85,690)	-	(85,690)
<u>(1,028,399)</u>	<u>-</u>	<u>(1,028,399)</u>
	(35,267)	(35,267)
	24,149	24,149
	252,267	252,267
-	16,841	16,841
<u>-</u>	<u>257,990</u>	<u>257,990</u>
<u>(1,028,399)</u>	<u>257,990</u>	<u>(770,409)</u>
723,315		723,315
150,638		150,638
314,388		314,388
303,091		303,091
20,583		20,583
30,080	87,296	117,376
105,765	-	105,765
<u>1,647,860</u>	<u>87,296</u>	<u>1,735,156</u>
585,000	(585,000)	-
1,204,461	(239,714)	964,747
<u>5,046,050</u>	<u>16,745,772</u>	<u>21,791,822</u>
<u>\$ 6,250,511</u>	<u>16,506,058</u>	<u>22,756,569</u>

City of West Liberty

Balance Sheet
Governmental Funds

June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 1,161,325	122,495	1,116,670	2,400,490
Receivables:				
Property tax	16,790			16,790
Accounts	9,898			9,898
Accrued interest	142		246	388
Due from other governments			5,750	5,750
Due from other funds	68,727			68,727
Prepaid Expenses	<u>37,770</u>		<u>4,875</u>	<u>42,645</u>
Total assets	<u>\$ 1,294,652</u>	<u>122,495</u>	<u>1,127,541</u>	<u>2,544,688</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 105,900	7,500	19,931	133,331
Salaries and benefits payable	25,812		4,144	29,956
Due to other governments	467			467
Due to other funds			<u>158,727</u>	<u>158,727</u>
Total Liabilities	<u>\$ 132,179</u>	<u>7,500</u>	<u>182,802</u>	<u>322,481</u>

City of West Liberty

Balance Sheet
Governmental Funds

June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Liabilities and Fund Balances (continued)				
Fund balances				
Reserved for debt service			257,464	257,464
Unreserved:				
Undesignated:				
Reported in:				
General fund	1,162,473			1,162,473
Special revenue funds			666,926	666,926
Capital projects fund		114,995	20,349	135,344
Total fund balances	<u>1,162,473</u>	<u>114,995</u>	<u>944,739</u>	<u>2,222,207</u>
Total liabilities and fund balances	<u>\$ 1,294,652</u>	<u>122,495</u>	<u>1,127,541</u>	<u>2,544,688</u>

See notes to financial statements.

City of West Liberty

City of West Liberty
Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets

June 30, 2004

Total governmental fund balances (page 22) \$ 2,222,207

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$9,462,414 and the accumulated depreciation is \$3,721,406.

5,741,008

Long-term liabilities, including bonds payable, compensated absences and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

(1,712,704)

Net assets of governmental activities (page 15)

\$ 6,250,511

See notes to financial statements.

City of West Liberty
Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Governmental Funds

Year ended June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Revenues:				
Property tax	\$ 665,756		57,559	723,315
Tax increment financing			150,638	150,638
Other city tax	104,796		209,592	314,388
Licenses and permits	20,583			20,583
Use of money and property	17,066	2,771	10,243	30,080
Intergovernmental	25,577		349,514	375,091
Charges for service	79,131		20,874	100,005
Miscellaneous	<u>33,586</u>	<u>7,750</u>	<u>64,429</u>	<u>105,765</u>
Total revenues	<u>946,495</u>	<u>10,521</u>	<u>862,849</u>	<u>1,819,865</u>
Expenditures:				
Operating:				
Public safety	532,728			532,728
Public works	57,555		269,635	327,190
Culture and recreation	303,363		102,449	405,812
Community and economic development	7			7
General government	185,679		5,058	190,737
Debt service			201,010	201,010
Capital projects	<u> </u>	<u>663,905</u>	<u>156,431</u>	<u>820,336</u>
Total expenditures	<u>1,079,332</u>	<u>663,905</u>	<u>734,583</u>	<u>2,477,820</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(132,837)</u>	<u>(653,384)</u>	<u>128,266</u>	<u>(657,955)</u>
Other financing sources (uses):				
Operating transfers in		585,000	11,215	596,215
Operating transfers out	<u>(11,215)</u>	<u>-</u>	<u>-</u>	<u>(11,215)</u>
Total other financing sources (uses)	<u>(11,215)</u>	<u>585,000</u>	<u>11,215</u>	<u>585,000</u>
Net change in fund balances	(144,052)	(68,384)	139,481	(72,955)
Fund balances (deficit) beginning of year	<u>1,306,525</u>	<u>183,379</u>	<u>805,258</u>	<u>2,295,162</u>
Fund balances (deficit) end of year	<u>\$ 1,162,473</u>	<u>114,995</u>	<u>944,739</u>	<u>2,222,207</u>

See notes to financial statements.

City of West Liberty

City of West Liberty

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities**

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 22) **\$ (72,955)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	1,396,491
Depreciation expense	(323,120)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Repaid	204,045
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Change in net assets of governmental activities (page 17) **\$ 1,204,461**

See notes to financial statements.

City of West Liberty
Statement of Net Assets
Proprietary Funds

June 30, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Enterprise Fund</u> <u>Electric</u>	<u>Solid Waste</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$ 101,099	188,315	2,156,278	108,236	2,553,928
Receivables (net of allowance for uncollectibles):					
Accounts	61,492	95,816	486,916	29,763	673,987
Accrued interest	1,135	1,247	5,626	73	8,081
Due from other funds			90,000		90,000
Inventories	25,791	1,050	107,362		134,203
Prepaid expenses	5,213	47,938	111,195	6,119	170,465
Restricted assets:					
Cash and pooled investments	898,706	1,254,823	1,218,011	14,200	3,385,740
Capital assets (net of accumulated depreciation)	<u>1,181,767</u>	<u>5,402,826</u>	<u>9,840,771</u>	<u>147,463</u>	<u>16,572,827</u>
Total assets	<u>2,275,203</u>	<u>6,992,015</u>	<u>14,016,159</u>	<u>305,854</u>	<u>23,589,231</u>
Liabilities					
Accounts payable	14,612	69,724	244,243	12,234	340,813
Salaries and benefits payable	1,565	1,453	4,433	2,045	9,496
Go Bonds payable current plus interest		20,238			20,238
Due to other governments		1,396	2,615		4,011
Payable from restricted assets:					
Customer deposits			55,793		55,793
Revenue notes payable		225,000	255,000		480,000
Accrued interest payable		40,716	18,153		58,869
Long-term liabilities:					
GO Bonds payable		147,600			147,600
Revenue notes payable		1,415,000	4,495,000		5,910,000
Bank note payable				56,353	56,353
Total liabilities	<u>16,177</u>	<u>1,921,127</u>	<u>5,075,237</u>	<u>70,632</u>	<u>7,083,173</u>
Net Assets					
Invested in capital assets, net of related debt	9,992	2,481,396	1,600		2,492,988
Restricted for:					
Revenue note retirement		530,146	364,750		894,896
Improvement	898,706	458,961	580,108	14,200	1,951,975
Unrestricted	<u>1,350,328</u>	<u>1,600,385</u>	<u>7,994,464</u>	<u>221,022</u>	<u>11,166,199</u>
Total net assets	<u>\$ 2,259,026</u>	<u>5,070,888</u>	<u>8,940,922</u>	<u>235,222</u>	<u>16,506,058</u>

See notes to financial statements.

City of West Liberty

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2004

	<u>Enterprise Fund</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Solid Waste</u>	<u>Total</u>
Operating revenues:					
Charges for service	\$ 307,035	1,045,302	3,319,516	193,802	4,865,655
Total operating revenues	<u>307,035</u>	<u>1,045,302</u>	<u>3,319,516</u>	<u>193,802</u>	<u>4,865,655</u>
Operating expenses:					
Business type activities:					
Cost of sales and services	238,287	702,448	2,367,026	161,431	3,469,192
Depreciation	<u>104,015</u>	<u>179,214</u>	<u>479,789</u>	<u>14,250</u>	<u>777,268</u>
Total operating expenses	<u>342,302</u>	<u>881,662</u>	<u>2,846,815</u>	<u>175,681</u>	<u>4,246,460</u>
Operating income (loss)	<u>(35,267)</u>	<u>163,640</u>	<u>472,701</u>	<u>18,121</u>	<u>619,195</u>
Non-operating revenues (expenses):					
Interest income	13,621	19,032	53,018	1,625	87,296
Interest expense		(139,491)	(220,434)	(1,280)	(361,205)
Transfers	<u>(195,000)</u>	<u>(195,000)</u>	<u>(195,000)</u>		<u>(585,000)</u>
Total non-operating revenues (expenses)	<u>(181,379)</u>	<u>(315,459)</u>	<u>(362,416)</u>	<u>345</u>	<u>(858,909)</u>
Change in net assets	(216,646)	(151,819)	110,285	18,466	(239,714)
Net assets beginning of year	<u>2,475,672</u>	<u>5,222,707</u>	<u>8,830,637</u>	<u>216,756</u>	<u>16,745,772</u>
Net assets end of year	<u>\$ 2,259,026</u>	<u>5,070,888</u>	<u>8,940,922</u>	<u>235,222</u>	<u>16,506,058</u>

See notes to financial statements.

City of West Liberty

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	<u>Enterprise Fund</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Solid Waste</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ (216,646)	(151,819)	110,285	18,466	(239,714)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	104,015	179,214	479,789	14,250	777,268
(Increase) Decrease in customer accounts receivable and unbilled usage and other accounts receivable	7,444	(1,074)	(143,368)	(4,903)	(141,901)
(Increase) decrease in inventories, at cost	543	(112)	(25,925)		(25,494)
(Increase) in prepaid expenses	(38)	(41,488)	(83,357)	(419)	(125,302)
Increase (decrease) in accounts payable	(83,728)	(16,099)	(210,912)	8,654	(302,085)
Increase (decrease) in salaries payable	(1,466)	(1,849)	(7,299)	(1,591)	(12,205)
Increase in customer deposits			4,184		4,184
Increase in due to other governments	-	1,396	(87,385)	-	(85,989)
Net cash provided (used) by operating activities	<u>(189,876)</u>	<u>(31,831)</u>	<u>36,012</u>	<u>34,457</u>	<u>(151,238)</u>
Cash flows from capital and related financing activities:					
Net increase of capital assets	(96,012)	(3,682)	(1,163,008)	(144,373)	(1,407,075)
Increase (decrease) in long term debt	-	(234,197)	(250,520)	56,353	(428,364)
Net cash used for capital and related financing activities	<u>(96,012)</u>	<u>(237,879)</u>	<u>(1,413,528)</u>	<u>(88,020)</u>	<u>(1,835,439)</u>
Net decrease in cash and cash equivalents	(285,888)	(269,710)	(1,377,516)	(53,563)	(1,986,677)
Cash and cash equivalents beginning of year	<u>1,285,693</u>	<u>1,712,848</u>	<u>4,751,805</u>	<u>175,999</u>	<u>7,926,345</u>
Cash and cash equivalents end of year	<u>\$ 999,805</u>	<u>1,443,138</u>	<u>3,374,289</u>	<u>122,436</u>	<u>5,939,668</u>

See notes to financial statements.

City of West Liberty
Notes to Financial Statements

June 30, 2004

NOTE 1- Summary of Significant Accounting Policies

City of West Liberty is a political subdivision of the State of Iowa located in Muscatine County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of West Liberty provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. It also provides electric, water, sewer and solid waste utilities.

The financial statements of the City of West Liberty have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of West Liberty has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of West Liberty (the primary government) and any component units of which it has none.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Muscatine County Assessor's Conference Board, County Emergency Management Commission, Muscatine County Landfill Commission and Muscatine County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

“Invested in capital assets, net of related debt” consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

“Restricted net assets” result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

“Unrestricted net assets” consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities related to street improvements .

The City reports the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of the City's electric system.

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking, is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2003.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of three years.

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	16,000
Infrastructure	35,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-50 years
Improvements other than buildings	15-50 years
Vehicles	3-15 years
Equipment	5-30 years
Infrastructure	15-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and if material, a fund liability of the governmental fund that will pay it. At June 30, 2004 the liability was not material to the financial statements.

Long-term Liabilities – In the government -wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the general government function.

NOTE 2- Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

NOTE 3- Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 345,000	-	-	345,000
Total capital assets not being depreciated	345,000	-	-	345,000
Capital assets being depreciated:				
Buildings	3,437,341	3,900		3,441,241
Improvements other than buildings	662,171	62,911		725,082
Equipment and vehicles	830,497	193,407		1,023,904
Infrastructure, road network	2,790,914	1,136,273	-	3,927,187
Total capital assets being depreciated	7,720,923	1,396,491	-	9,117,414
Less accumulated depreciation for:				
Buildings	1,365,977	46,504		1,412,481
Improvements other than buildings	208,048	35,881		243,929
Equipment and vehicles	496,065	109,829		605,894
Infrastructure, road network	1,328,196	130,906	-	1,459,102
Total accumulated depreciation	3,398,286	323,120	-	3,721,406
Total capital assets being depreciated, net	4,322,637	1,073,371	-	5,396,008
Governmental activities capital assets, net	\$ 4,667,637	1,073,371	-	5,741,008
Business type activities:				
Capital assets being depreciated:				
Buildings	\$ 1,203,766	1,152,816		2,356,582
Equipment and vehicles	16,497,731	211,144	24,853	16,684,022
Infrastructure, water and sewer network	7,228,786	193,012	-	7,421,798
Total capital assets being depreciated	24,930,283	1,556,972	24,853	26,462,402
Less accumulated depreciation for:				
Buildings	212,630	35,771		248,401
Equipment and vehicles	4,846,140	511,405	13,792	5,343,753
Infrastructure, water and sewer network	4,067,329	230,092	-	4,297,421
Total accumulated depreciation	9,126,099	777,268	13,792	9,889,575
Total capital assets being depreciated, net	15,804,184	779,704	11,061	16,572,827
Business type activities capital assets, net	\$ 15,804,184	\$ 779,704	\$ 11,061	\$ 16,572,827

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety	\$ 70,447
Public works	153,792
Culture and recreation	94,232
General government	<u>4,649</u>
Total depreciation expense - governmental activities	<u>\$ 323,120</u>
Business type activities:	
Water	\$ 103,796
Wastewater	179,433
Sanitation	14,250
Electric	<u>479,789</u>
Total depreciation expense - business type activities	<u>\$ 777,268</u>

NOTE 4- Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 1,916,749	-	204,045	1,712,704	205,169
Total	<u>\$ 1,916,749</u>	<u>-</u>	<u>204,045</u>	<u>1,712,704</u>	<u>205,169</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
Revenue notes	\$ 7,036,960	-	479,680	6,557,280	499,680
Total	<u>\$ 7,036,960</u>	<u>-</u>	<u>479,680</u>	<u>6,557,280</u>	<u>499,680</u>

(1) Bonds were sold at a discount; unamortized discount at June 30, 2004 totaled \$.

General obligation bonds/notes

Three issues of unmatured general obligation bonds/notes, totaling \$1,712,704, are outstanding at June 30, 2004. General obligation bonds/notes bear interest at rates ranging from 3.10% to 6.75% and mature in varying annual amounts, ranging from \$10,135 to \$140,000 with the final maturities due in the year ending 2016.

Details of general obligation bonds/notes payable at June 30, 2004 are as follows:

Governmental activities:	Date of <u>Issue</u>	Interest <u>Rates</u>	Final Due <u>Date</u>	Annual <u>Payments</u>	Amount Originally <u>Issued</u>	Outstanding <u>June 30, 2004</u>
General obligation bonds/notes:						
Library Construction note	5/25/2001	6.75%	6/30/2006	Various	400,000	94,984
Street Improvement bond	3/1/2001	4.5%-5.3%	6/30/2016	Various	1,490,000	1,275,000
Pool Capital Note	9/1/2002	2.75%-4.7%	6/30/2013	Various	400,000	<u>342,720</u>
Total governmental activities						<u>\$ 1,712,704</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 205,169	75,685	280,854
2006	138,815	67,433	206,248
2007	133,680	62,982	196,662
2008	137,040	58,072	195,112
2009	142,040	52,542	194,582
2010	126,880	46,951	173,831
2011	135,240	41,305	176,545
2012	145,240	35,067	180,307
2013	153,600	28,102	181,702
2014	125,000	20,540	145,540
2015	130,000	14,175	144,175
2016	<u>140,000</u>	<u>7,420</u>	<u>147,420</u>
Total	<u>\$ 1,712,704</u>	<u>510,274</u>	<u>2,222,978</u>

Revenue notes

Three issues of unmatured revenue notes, totaling \$6,557,280, are outstanding at June 30, 2004. These notes bear interest at rates of 3.0% to 7.5% and mature in varying annual amounts ranging from \$13,120 to \$455,000 with the final maturity due in the year ending 2017.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers to separate wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2004, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2004 are as follows:

Business type activities:	Date of <u>Issue</u>	Interest <u>Rates</u>	Final Due <u>Date</u>	Annual <u>Payments</u>	Amount Originally <u>Issued</u>	Outstanding <u>June 30, 2004</u>
Revenue notes:						
Electric	#####	2.5-5.3%	#####	Various	5,000,000	4,750,000
Sewer	#####	7.25-7.5%	#####	Various	3,115,000	1,640,000
Sewer	#####	2.75-4.7%	#####	Various	195,000	<u>167,280</u>
Total						<u>\$ 6,557,280</u>

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 499,680	268,226	767,906
2006	531,320	260,459	791,779
2007	551,320	250,526	801,846
2008	587,960	230,393	818,353
2009	622,960	206,841	829,801
2010	648,120	175,634	823,754
2011	334,760	141,728	476,488
2012	349,760	130,683	480,443
2013	371,400	117,899	489,299
2014	370,000	101,970	471,970
2015	390,000	85,345	475,345
2016	410,000	66,950	476,950
2017	435,000	46,725	481,725
2018	<u>455,000</u>	<u>24,115</u>	<u>479,115</u>
Total	<u>\$ 6,557,280</u>	<u>2,107,494</u>	<u>8,664,774</u>

NOTE 5- Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Fire Reserve	General	\$ 10,000
Hoover Trail	General	<u>1,215</u>
		<u>11,215</u>
Capital Projects	Water	195,000
	Sewer	195,000
	Electric	<u>195,000</u>
		<u>585,000</u>
Total		<u>\$596,215</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

NOTE 6- Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue: TIF	68,727
Enterprise: Electric	Special Revenue: TIF	<u>90,000</u>
Total		<u>\$158,727</u>

These balances result from interfund loans to finance projects. Repayments will be made from future revenues.

NOTE 7- Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$57,748, \$54,833 and \$52,942, respectively, equal to the required contributions for each year.

City Management Association (ICMA) -

The contribution paid by the City during the fiscal year ended June 30, 2004, for the City Manager totaled \$579. This is a defined contribution retirement plan.

NOTE 8- Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - LOCAL OPTION SALES TAX

Commencing on July 1, 1995, the City began collecting a one percent local option sales tax. As approved by voters, the City is required to utilize the sales tax revenue it receives as follows:

From January 1, 1999

- 33 ¹/₃% for local property tax relief
- 33 ¹/₃% for streets, curbs & gutters
- 33 ¹/₃% for library building project

NOTE 10 - CODE OF IOWA, CHAPTER 28E, ORGANIZATIONS

On September 11, 1983, the City entered into an agreement with the Muscatine County Solid Waste Management Agency for the establishment of a jointly governed public agency under Chapter 28E of the Code of Iowa for the purpose of providing solid waste disposal facilities in Muscatine County, Iowa. The City has no direct financial commitment to the entity. The City is obligated to remain a member of the Agency for as long as bonds remain outstanding that the City of Muscatine issued in fiscal year 1997 for construction of collection and disposal facilities.

On October 4, 1994, the City entered into an agreement with the Resale Power Group of Iowa for the establishment of a jointly governed public agency under Chapter 28E of the Code of Iowa for the purpose of providing for the purchase, generation transmission distribution, sale and interchange of electric energy and related services. The agreement was modified on May

20, 1998 to include the purpose of contracting for electrical power and energy on a wholesale basis.

On January 3, 1995, the City entered into an agreement with other governmental units in the area for the establishment of a jointly governed public agency under Chapter 28E of the Code of Iowa for the purpose of mutual fire aid protection in Muscatine County, Iowa. The City has no direct financial commitment to the entity. The City is obligated to share its fire protection resources with other governmental units of the entity. On October 7, 1997 the City entered into an agreement under Chapter 28E of the Code of Iowa with the West Liberty Community School District for the purpose of allowing for relocation of a fence.

On January 20, 1998, the City, entered into an agreement with the City of Wilton, Iowa under Chapter 28E of the Code of Iowa for the purpose of sharing equally the cost of sewer line televising equipment.

On February 11, 2000, the City entered into an agreement with the Muscatine County Sheriff's Office, the City of Muscatine Police Department and the Muscatine County Attorney's Office for the establishment of a jointly governed public agency, the Muscatine County Drug Task Force, under Chapter 28E of the Code of Iowa for the purpose of coordinating their controlled substances investigations, under Chapter 28D, enforcement and prosecution efforts and to share resources available through various sources of funding. The City has no direct financial commitment to the entity. The City is obligated to share its law enforcement resources with the other governmental units of the entity.

On June 6, 2002, the City entered into an agreement under Chapter 28E with the West Liberty Volunteer Fire Department and the West Liberty Rural Communities Ambulance District for the purpose of jointly owned ambulance equipment and the allocation of operating and maintenance expense.

On June 2, 2002, the City entered into an agreement under Chapter 28E with the West Liberty Volunteer Fire Department and the West Liberty Rural Fire Department for the purpose of jointly owned firefighting equipment and the allocation of operating and maintenance expense.

NOTE 11- RPGI PARTICIPANT (AGENCY) AGREEMENT & RPGI PRO RATA GUARANTY

The City signed a RPGI Participant Agreement dated April 15th, 2003 with the Resale Power Group of Iowa (RPGI), an Iowa Chapter 28E Organization of which the City is a member. The purpose of the agreement is to permit RPGI to act as an agent for the City for entering into agreements for the purchase, generation, distribution, sale and interchange of electric energy. The agreement commences on January 1, 2004 and shall continue for successive five year terms until terminated by either party.

Related to the preceding agreement, the City also signed a RPGI Pro Rata Guaranty dated April 16th, 2003 with the Resale Power Group of Iowa (RPGI). The purpose of the guaranty is to obligate the City to be contingently liable to RPGI in its role as a contracting agent and guarantor for the purchase of electric energy from Ameren Energy Marketing Company (AEM) of Illinois in behalf of the members of RPGI. The City's share of the RPGI's \$20M guaranty to AEM is 7.61%, or \$1,528,088 based upon the agreement among the members of RPGI. The guaranty agreement terminates on February 15th, 2009, unless the agreement with AEM terminates prior to that date.

NOTE 12 - TAX INCREMENT FINANCING

Resolution 6-03 authorized a loan to the Tax Increment Financing Fund. The City of West Liberty has established the West Liberty Urban Renewal Area whereas the City will perform certain improvements consisting of repair and renovation of the east side interceptor sewer. In order to make the improvements eligible to be paid from the incremental property tax revenues, it is necessary to create an internal debt. The City Clerk was directed that \$90,000 be

advanced to the Tax Increment Fund from the Electric Fund in order to pay the cost of the improvements. The advance shall be treated as a loan to the Tax Increment Fund and shall be repaid to the Electric Fund with interest of 3.75% per annum. Payment shall be made on the loan on December 31st and June 30th of each year to the extent there are incremental tax revenues available for such purpose. Funds shall be credited first to accrued interest and then to outstanding principal. Similarly, Resolution 4-02 established a Tax Increment Fund and authorized a loan to that fund. The City performed certain improvements consisting of the acquisition and demolition of 109 Rainbow Drive. The City Clerk was directed that \$90,000 be advanced to the TIF from the General Fund with interest of 3.75%. Payments shall be made June 1st, of each year as TIF funds are available. Payments will be allocated first to accrued interest and then to outstanding principal.

NOTE 13 - WATER POLLUTION CONTROL AGREEMENT WITH INDUSTRIAL USER AND AMENDMENT OF AGREEMENT

An Agreement was made, dated June 14, 1993, between the Oscar Mayer Foods Corporation d/b/a Louis Rich Foods (the Company) and the City of West Liberty (the City) "to provide for contribution by the Company to the City for the cost of wastewater treatment plant improvements and also contributions by the Company to the City for the cost of operation of the improved wastewater treatment plant." The agreement supersedes all prior agreements. In the agreement, the City assumed responsibility for arranging financing for construction of the improvements, procurement of construction bids and letting of the contracts for construction. Covenants of the City include maintenance of adequate insurance on the facilities, operation of facilities in a prudent manner, indemnification of the company for any claims arising from the construction and normal operation of the facilities, and replacement of the facilities if damaged or destroyed by casualty.

The Company is obligated to pay a "Capital" charge and a "User" charge to the City. The "Capital" charge is the Company's minimum share (approximately 70%) of project costs of constructing the facilities and interest expense on debt obligations. The "User" charge is the Company's share of operating costs based upon rates of flow and treatment characteristics of the Company's discharge. The "Capital" charge payment by the Company will cease when the aggregate amount paid equal's the Company's share of project costs. The user charge will continue under the agreement for as long as the Company discharges wastewater to the City's facilities. On April 16, 1996, the Company informed the City of its intent to sell its West Liberty plant. The Iowa Turkey Growers Cooperative (ITGC) purchased the production facilities in West Liberty from the Louis Rich Company on January 1, 1997. Oscar Mayer Foods Corporation remains liable for performance under the contract to the City.

An amendment to the agreement was made on February 15, 1994. The amendment, effective the date signed, requires the Company to pay an "Enhanced Capital" charge, whereby an additional amount equivalent to 30% of the Capital charge as determined in the original agreement is deposited into the "Wastewater Treatment Plant Improvement Fund." This fund is to be used for paying principal and interest on outstanding debt if and when there are insufficient funds in other debt reserve accounts. The "Enhanced Capital" charge will cease at the same time that the Capital charge under the original agreement ceases.

A second amendment was made to the agreement on March 8, 1997, for the purpose of specifying the project cost of \$3,115,000 which is used in calculating the "Capital" charge and the "Enhanced Capital" charge.

NOTE 14 - LIBRARY CONSTRUCTION NOTE PAYABLE

During the fiscal year ended June 30, 2001, the City received proceeds of \$400,000 from a General Obligation Library Note Payable for the purpose of library construction to repay an interfund loan. The note dated May 25, 2001 carries an interest rate of 6.75% and is due May 15, 2006.

NOTE 15 - CEBA LOAN AGREEMENT

The City received a Community Economic Betterment Account (CEBA) award dated August 19, 1999 for a loan of \$350,000 and a forgivable loan of \$150,000 on behalf of a local business Engineered Rubber Products, Inc. The local business is required to repay the loan over 60 months at 0% interest with monthly payments of \$5,833.33 commencing June 1, 2000. The forgivable loan does not have to be repaid if the business complies with covenants contained within the agreement. The City provides electrical infrastructure improvements and agency services for the Iowa Department of Economic Development for administration of the award. During the fiscal year ended June 30, 2004, the business complied with its contractual obligation. The balance of the loan payable at June 30, 2004 was \$140,000.

NOTE 16 - STREET CONSTRUCTION G.O. CAPITAL LOAN NOTE

During the fiscal year ended June 30, 2000, the City received proceeds of \$1,000,000 from a bond anticipatory note for purposes of street construction. The debt dated May 3, 2000 carried an interest rate of 5.1% and was due June 1, 2001. The liability for the note was shown in the special revenue street fund. The refinancing of the short term note on a long term basis was anticipated to be completed during the fiscal year ended June 30, 2001. The street construction loan was not included in the general long term debt account group.

During the fiscal year ended June 30, 2001, the City received proceeds of \$1,490,000 from a General Obligation Capital Loan Note for the purposes of refinancing the fore mentioned note and additional street construction. The debt, dated March 22, 2001, carries an interest rate of 5.0527% and is due June 1, 2016.

NOTE 17 - CAPITAL LOAN NOTES

Water Pollution Control

The City issued general obligation capital loan notes dated January 1, 1994 in the aggregate amount of \$350,000 for the purpose of financing construction of Water Pollution Control plant and sewer improvements. The notes mature serially between 1997 and 2009 and carry an average interest rate of 4.867%. As of July 1, 2002 the remaining notes payable totaled \$190,000.

The above remaining capital loan notes of \$190,000 were retired by refunding the debt with General Obligation Capital Loan Notes dated September 1, 2002 for a total of \$195,000. These refunding Capital Loan Notes are included as a part of the \$595,000 of Capital Loan Notes issued that date of which \$400,000 was issued for the purpose of the swimming pool renovation project. Therefore, 32.7731% of principal and interest debt service payments on the \$595,000 of Capital Loan Notes are allocated to the Water Pollution Control proprietary enterprise fund. The notes mature serially between 2003 and 2013 and carry an average interest rate of 4.14%.

Pool Renovation Project

Dated September 1, 2002, the City issued \$400,000 of General Obligation Capital Loan Notes to fund renovation of the Municipal Swimming Pool. These Capital Loan Notes are included as a part of the \$595,000 of Capital Loan Notes issued that date of which \$195,000 was issued for the purpose of refunding Water Pollution Control Capital Loan Notes dated January 1, 1994. Therefore, 67.227% of principal and interest debt service payments on the \$595,000 of Capital Loan Notes are allocated to the Debt Service Fund. The notes mature serially between 2003 and 2013 and carry an average interest rate of 4.14%.

NOTE 18 - LOAN AGREEMENTS WITH IOWA TURKEY GROWERS COOPERATIVE

The Iowa Turkey Growers Cooperative, (ITGC) doing business as West Liberty Foods, entered into a contract with the Louis Rich Company for purchase of its West Liberty production

facilities in December of 1996. This contract was contingent upon obtaining financing including forgivable loans from the City of West Liberty. The city entered into a contract with the Iowa Department of Economic Development (IDED) whereby the city received a \$500,000 forgivable loan under the Iowa Nonentitlement CDBG Economic Development Set-Aside Program funded by the federal government. The city entered into a contract with ITGC to loan the \$500,000 of CDBG monies and an additional \$75,000 of city monies to ITGC, in exchange for certain affirmative covenants by ITGC. Upon the first anniversary of the expiration of the contract on September 30, 1997, the loans were to be forgiven if ITGC has complied with the contract terms including proper use of loan funds, maintaining a minimum level of employment, and providing various financial reports. The federal funds are subject to repayment if there is noncompliance.

In August of 1997, the City was notified by ITGC that they were in noncompliance with the terms of the contract with the City due to their non-submission of financial reports to the City which are required under the contract to be submitted in a timely manner. The City issued a letter of waiver to ITGC with respect to the lack of timely financial report submission that would otherwise constitute loan default. The Iowa Department of Economic Development has been notified by the City about the waiver. The loans are secured by liens on ITGC property. The forgivable loan was forgiven as of September 30, 1997.

As part of a financial restructuring in April of 1998, West Liberty Foods requested and received a subordination of debt agreement from the City. Also, the City loaned an additional \$50,000 to West Liberty Foods from the City's Electric Utilities Proprietary Enterprise Fund, for working capital. The note is at 6% and the loan is amortized with monthly payments aggregating \$966.64 per month for principal and interest with 60 monthly payments commencing February 1, 2000.

NOTE 19 - NOTE INDEBTEDNESS - REVENUE NOTE REQUIREMENTS

Water Pollution Control Revenue Notes

The Council of the City of West Liberty passed an ordinance to authorize the issuance of \$3,115,000 of Sewer Revenue Capital Loan Notes, dated March 1, 1995, to finance the construction of improvements to the Water Pollution Control facility and related improvements.

The ordinance provides that these notes will be retired from the revenue of the municipal Sewer Utility. The ordinance creates the following three funds to provide for the retirement of the notes:

1. Note and Interest Sinking Fund - Monthly deposits are to be made to this fund from the operations account amounting to one-sixth of the interest coming due at the next semiannual interest payment date, plus one-twelfth of the notes maturing on the next maturity date. Notes and interest are paid by this fund.
2. Debt Service Reserve Fund - Monthly deposits of 25% of the amount required for the above Note and Interest Sinking Fund from the operations account are to be made into this fund until the fund balance has reached the Reserve Fund Requirement. The Reserve Fund Requirement equals the lesser of the maximum interest and principal coming due or ten percent of the principal amount outstanding.
3. Sewer Improvement Fund - Monthly payments of \$5,000 are to be made to this fund. This fund is to be used, if necessary, to finance accounts #1 and #2 above and for repairs or construction of additional works and facilities. Payments are to continue until \$300,000 has been accumulated in the account. If the account balance drops below this minimum balance, the monthly \$5,000 payments must recommence.

The bonds mature serially starting March 1, 1997, through March 1, 2010. Interest is payable semiannually on March 1 and September 1. Deposits to above funds #1, #2 and #3 were made correctly during the year in accordance with the above requirements.

The ordinance required that the accrued interest of \$13,788.35 received from issuance of the notes be deposited to the Note and Interest Sinking Fund. Also, it required \$300,000 from funds on hand to be deposited in the Debt Service Reserve Fund. Both of these requirements have been completed.

The ordinance also requires that other covenants be complied with as follows:

- a. The City will maintain the Water Pollution Control Facility in good condition; operate it in an efficient manner and at reasonable cost.
- b. The City will produce sufficient net revenue adequate to pay principal and interest on notes and fund reserve and improvement funds, but not less than 125% of the principal and interest requirements each year.
- c. The City will maintain adequate insurance on the facilities.
- d. The City will have an annual audit by an independent auditor and provide a copy to the original purchaser and other note holders. The audit report must include the following:
 - i. An evaluation of covenant compliances.
 - ii. Statement of revenues and expenses.
 - iii. Balance sheet.
 - iv. Rates in effect at the end of the fiscal year, the number of customers of the system and an analysis of the rates of debt service to net revenues.
 - v. Schedule of insurance.
 - iv. Evaluation of internal controls and sufficiency of fidelity bonding.
 - vii. Listing of public officials.
 - viii. Statement addressing any events or circumstances which might affect the financial status of the system.
- e. The City will operate the system in compliance with state laws.
- f. The City will not sell, lease or in any other manner dispose of any of the system, generally.
- g. Sufficient fidelity bond coverage will be maintained by the City.
- h. The City will require proper connecting charges and security from customers for payment of service charges.
- i. The City will adopt a system budget each year.

The City complied with the preceding covenants for the fiscal year ended June 30, 2003, except for the following paragraph.

Dated September 2, 1998, the City received an administrative order from the Iowa Department of Natural Resources (DNR) citing failure of the water pollution control plant to comply with the requirements of its operating permit. The DNR ordered the City to complete construction of treatment facility improvements and comply with final effluent limitations and the DNR imposed a penalty for past violations. The City completed improvements to the waste water treatment plant and had filed an appeal to the administrative order with the DNR. The City reached a settlement on the penalty amount of \$41,472.10 on September 9, 2002.

On April 16, 1996, the City received official notification from the Louis Rich Company, the major user of the system, that the West Liberty plant was for sale. The Iowa Turkey Growers Cooperative (ITGC) purchased the production facilities in West Liberty from the Louis Rich Company on January 1, 1997. A contract was signed with the City by ITGC whereby the city

will provide wastewater treatment services to ITGC on a contractual basis similar to the contract previously with the Louis Rich Company.

Electric Utility Revenue Notes

The Council of the City of West Liberty passed an ordinance to authorize the issuance of \$5,000,000 of Electric Revenue Capital Loan Notes, dated September 1, 2002, to finance the construction of improvements to the Municipal Electric Utility of the City including additional generating capacity.

The ordinance provides that these notes will be retired from the revenue of the Municipal Electric Utility. The ordinance creates the following four funds to provide for the retirement of the notes:

1. Operation & Maintenance Fund - Monthly deposits are to be made to this fund from operating revenues sufficient to meet the current operating expenses of the month plus an amount equal to one-twelfth of the expenses payable annually.
2. Sinking Fund - Monthly deposits are to be made to this fund from the operations account amounting to one-sixth of the interest coming due at the next semiannual interest payment date, plus one-twelfth of the notes maturing on the next maturity date. Notes and interest are paid by this fund.
3. Reserve Fund - Monthly deposits of 25% of the amount required for the above Sinking Fund from the operations account are to be made into this fund until the fund balance has reached the Reserve Fund Requirement. The Reserve Fund Requirement equals the lesser of the (1) maximum interest and principal coming due, (2) ten percent of the principal amount outstanding, or (3) 125% of the average annual principal and interest coming due. An initial deposit of \$471,000 to the Reserve Fund was required.
4. Improvement Fund - Monthly payments of \$4,000 are to be made to this fund. This fund is to be used, if necessary, to finance accounts #2 and #3 above and for repairs or construction of additional works and facilities. Payments are to continue until \$500,000 has been accumulated in the account. If the account balance drops below this minimum balance, the monthly \$4,000 payments must recommence. An initial deposit of \$500,000 to the Improvement Fund was required.

The bonds mature serially starting December 1, 2003, through December 1, 2017. Notes maturing after December 1, 2010 may be called for redemption on said date or anytime thereafter at par by giving thirty (30) days notice of redemption. Interest is payable semiannually on June 1 and December 1. Monthly deposits to above funds #1, #2, #3 and #4 were made correctly during the year in accordance with the above requirements.

The ordinance required that the accrued interest of \$19,918.22 received from issuance of the notes be deposited to the Sinking Fund. Also, it required \$471,000 from funds on hand to be deposited in the Reserve Fund and \$500,000 from funds on hand to be deposited to the Improvement Fund. All three of these requirements have been completed.

The ordinance also requires that other covenants be complied with as follows:

- a. The City will maintain the Electric Utility System in good condition; operate it in an efficient manner and at reasonable cost.
- b. The City will produce sufficient net revenue adequate to pay principal and interest on notes and fund Reserve and Improvement Funds.

- c. The City will maintain adequate insurance on the facilities. Proceeds of any insurance will be used to repair or replace destroyed parts of the system or shall be placed in the Improvement Fund.
- d. The City will have an annual audit by an independent auditor and provide a copy to the original purchaser and other note holders, upon request.
- e. The City will operate the system in compliance with state laws.
- f. The City will not sell, lease or in any other manner dispose of any of the system, generally.
- g. Sufficient fidelity bond coverage will be maintained by the City.
- h. The City will require proper connecting charges or other security for payment of service charges.
- i. The City will approve and conduct operations pursuant to a system budget of revenues and expenses for each fiscal year.

The City complied with the preceding covenants for the fiscal year ended June 30, 2004.

NOTE 20 - CONTRACT COMMITMENTS

As of June 30, 2004, the City was obligated under the following contract commitments:

Operations Management International, Inc. for operation of the Wastewater Treatment Plant, Sludge Disposal and Industrial Monitoring program under a five year amended contract dated January 10, 2002 that began July 1, 2001, at a monthly fee of \$37,035, adjusted annually.

NOTE 21- Subsequent Events

On August 17, 2004, the city council authorized the City Clerk to sign the agreement for Federal Surface Transportation Program Funds in the amount of \$525,000 for the Prairie Street Project.

NOTE 22- Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the City’s governmental and business type activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$6,257,250 were restated to \$4,667,637, net of accumulated depreciation of \$3,398,286. The restatement resulted from adding infrastructure assets.

The effects of the accounting change and other restatements are summarized as follows:

Primary Government:

Governmental activities:	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 2,295,162
GASB Interpretation 6 adjustments	
Net assets July 1, 2003, as restated for governmental funds	2,295,162
 GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$ 3,398,286	4,667,637
Long-term liabilities	<u>(1,916,749)</u>
 Net assets July 1, 2003, as restated	<u>\$ 5,046,050</u>

Required Supplementary Information

City of West Liberty

**Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) -
Governmental Funds and Proprietary Funds**

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>	<u>Budget</u>	Actual to Budget <u>Variance</u>
Receipts:					
Property tax	\$ 723,315		723,315	684,184	39,131
Tax increment financing	150,638		150,638	152,000	(1,362)
Other city tax	314,388		314,388	274,701	39,687
Licenses and permits	20,583		20,583	11,100	9,483
Use of money and property	30,080	87,296	117,376	170,000	(52,624)
Intergovernmental	375,091		375,091	797,470	(422,379)
Charges for service	100,005	4,865,655	4,965,660	4,079,900	885,760
Miscellaneous	105,765	-	105,765	18,125	87,640
Total receipts	<u>1,819,865</u>	<u>4,952,951</u>	<u>6,772,816</u>	<u>6,187,480</u>	<u>585,336</u>
Disbursements:					
Public safety	532,728		532,728	589,443	(56,715)
Public works	327,190		327,190	335,448	(8,258)
Culture and recreation	405,812		405,812	512,032	(106,220)
Community and economic development	7		7	6,000	(5,993)
General government	190,737	289,000	479,737	470,912	8,825
Debt service	201,010		201,010	262,431	(61,421)
Capital projects	820,336		820,336	1,056,432	(236,096)
Business type activities	-	4,318,665	4,318,665	7,545,356	(3,226,691)
Total disbursements	<u>2,477,820</u>	<u>4,607,665</u>	<u>7,085,485</u>	<u>10,778,054</u>	<u>(3,692,569)</u>
Excess (deficiency) of receipts over (under) disbursements	(657,955)	345,286	(312,669)	(4,590,574)	4,277,905
Other financing sources, net	<u>585,000</u>	<u>(585,000)</u>	<u>-</u>	<u>1,962,000</u>	<u>(1,962,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(72,955)	(239,714)	(312,669)	(2,628,574)	2,315,905
Balances beginning of year	<u>2,295,162</u>	<u>16,745,772</u>	<u>19,040,934</u>	<u>-</u>	<u>19,040,934</u>
Balances end of year	<u>\$ 2,222,207</u>	<u>16,506,058</u>	<u>18,728,265</u>	<u>(2,628,574)</u>	<u>21,356,839</u>

See accompanying independent auditors' report.

City of West Liberty
Notes to Required Supplementary Information – Budgetary Reporting
Year ended June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget amendments increased budgeted disbursements by \$663,539. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements in the function exceeded the amount budgeted.

City of West Liberty

Other Supplementary Information

City of West Liberty

Combining Balance Sheet
Nonmajor Funds

June 30, 2004

	Special Law Enforcement	Local Option Tax	Special Revenue Crees Cemetery	Library Improvement	Road Use	FEMA	TIF Urban Renewal	Fire Trust and Agency	K-9 Trust and Agency
Assets									
Cash and pooled investments	\$ 114	274,302	36,369	5,150	153,093	8,951	(411)	29,819	1,727
Receivables:									
Accrued interest			56					16	
Due from other governments							707		
Prepays					4,875				
Total assets	\$ 114	274,302	36,425	5,150	157,968	8,951	296	29,835	1,727
Liabilities and Fund Equity									
Liabilities:									
Accounts payable			452		18,074				
Accrued payroll					4,144				
Due to other funds							158,727		
Fund equity:									
Fund balances:									
Unreserved, undesignated	114	274,302	35,973	5,150	135,750	8,951	(158,431)	29,835	1,727
Total liabilities and fund equity	\$ 114	274,302	36,425	5,150	157,968	8,951	296	29,835	1,727

See accompanying independent auditors' report.

City of West Liberty

Combining Balance Sheet
Nonmajor Funds

June 30, 2004

Special Revenue					Hoover National Trail	Cash Clearing	Payroll Clearing	Subtotal Special Revenue	Debt Service	Capital Projects	Total
Special Gifts	Library Trust	Insurance Reserve	Ambulance Reserve	Fire Reserve							
125	7,159	122,581	70,806	131,999		2,219	(103)	843,900	252,421	20,349	1,116,670
		67		107				246			246
								707	5,043		5,750
								4,875			4,875
<u>125</u>	<u>7,159</u>	<u>122,648</u>	<u>70,806</u>	<u>132,106</u>	<u>-</u>	<u>2,219</u>	<u>(103)</u>	<u>849,728</u>	<u>257,464</u>	<u>20,349</u>	<u>1,127,541</u>
								-			
	1,449	59					(103)	19,931			19,931
								4,144			4,144
								158,727			158,727
<u>125</u>	<u>5,710</u>	<u>122,589</u>	<u>70,806</u>	<u>132,106</u>	<u>-</u>	<u>2,219</u>	<u>-</u>	<u>666,926</u>	<u>257,464</u>	<u>20,349</u>	<u>944,739</u>
								-			
<u>125</u>	<u>7,159</u>	<u>122,648</u>	<u>70,806</u>	<u>132,106</u>	<u>-</u>	<u>2,219</u>	<u>(103)</u>	<u>849,728</u>	<u>257,464</u>	<u>20,349</u>	<u>1,127,541</u>

See accompanying independent auditors' report.

City of West Liberty
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Funds
Year ended June 30, 2004

	Special Revenue								
	Special Law <u>Enforcement</u>	Local Option <u>Tax</u>	Crees <u>Cemetery</u>	Library <u>Improvement</u>	Road <u>Use</u>	FEMA	TIF Urban <u>Renewal</u>	Fire Trust and <u>Agency</u>	K-9 Trust and <u>Agency</u>
Revenues:									
Property tax							24,855		
Tax increment financing									
Other city tax									
Use of money and property	\$ 1	2,525	603	67			89	364	15
Intergovernmental					277,514				
Charge for service									
Miscellaneous								2,125	200
Total revenues	<u>1</u>	<u>2,525</u>	<u>603</u>	<u>67</u>	<u>277,514</u>	<u>-</u>	<u>24,944</u>	<u>2,489</u>	<u>215</u>
Expenditures:									
Operating:									
Public Works					269,635				
Culture and Recreation				3,900					
General Government									
Debt Service							3,375		
Capital Projects									
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,900</u>	<u>269,635</u>	<u>-</u>	<u>3,375</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	1	2,525	603	(3,833)	7,879	-	21,569	2,489	215
Other financing sources (uses):									
Operating transfers in									
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	1	2,525	603	(3,833)	7,879	-	21,569	2,489	215
Fund balances beginning of year	<u>113</u>	<u>271,777</u>	<u>35,370</u>	<u>8,983</u>	<u>127,871</u>	<u>8,951</u>	<u>(180,000)</u>	<u>27,346</u>	<u>1,512</u>
Fund balances end of year	<u>\$ 114</u>	<u>274,302</u>	<u>35,973</u>	<u>5,150</u>	<u>135,750</u>	<u>8,951</u>	<u>(158,431)</u>	<u>29,835</u>	<u>1,727</u>

See accompanying independent auditors' report.

City of West Liberty
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Funds
Year ended June 30, 2004

Special Revenue											
Special Gifts	Library Trust	Insurance Reserve	Ambulance Reserve	Fire Reserve	Hoover National Trail	Cash Clearing	Payroll Clearing	Subtotal Special Revenue	Debt Service	Capital Projects	Total
									57,559		57,559
								24,855	125,783		150,638
	104,796							104,796	104,796		209,592
	34	1,393	527	1,759				7,377	2,302	564	10,243
					72,000			349,514			349,514
			20,874					20,874			20,874
	6,084	14,471		10,000	30,000	1,549		64,429			64,429
-	110,914	15,864	21,401	11,759	102,000	1,549	-	571,845	290,440	564	862,849
								269,635			269,635
	98,549							102,449			102,449
		5,058						5,058			5,058
					102,000			3,375	197,635		201,010
					102,000			102,000		54,431	156,431
-	98,549	5,058	-	-	102,000	-	-	482,517	197,635	54,431	734,583
-	12,365	10,806	21,401	11,759	-	1,549		89,328	92,805	(53,867)	128,266
				10,000	1,215			11,215			11,215
-	-	-	-	10,000	1,215	-	-	11,215	-	-	11,215
-	12,365	10,806	21,401	21,759	1,215	1,549	-	100,543	92,805	(53,867)	139,481
125	(6,655)	111,783	49,405	110,347	(1,215)	670	-	566,383	164,659	74,216	805,258
125	5,710	122,589	70,806	132,106	-	2,219	-	666,926	257,464	20,349	944,739

See accompanying independent auditors' report.

City of West Liberty

Schedule of Revenues by Source and Expenditures by Function -
All Governmental Funds

For the Last Four Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:				
Property tax	\$ 723,315	785,085	732,308	717,847
Tax increment financing revenue	150,638	144,753	76,154	
Other city tax	314,388	274,548	293,448	301,816
Licenses and permits	20,583	33,739	30,856	36,268
Use of money and property	30,080	41,452	75,682	130,328
Intergovernmental	375,091	357,437	349,003	845,970
Charges for service	100,005	77,088	72,070	47,326
Miscellaneous	<u>105,765</u>	<u>76,098</u>	<u>111,664</u>	<u>348,143</u>
Total	<u>\$ 1,819,865</u>	<u>1,790,200</u>	<u>1,741,185</u>	<u>2,427,698</u>
Expenditures:				
Operating:				
Public safety	\$ 532,728	478,329		
Public works	327,190	358,056		
Culture and recreation	405,812	506,682		
Community and economic development	7	2,617		
General government	190,737	108,958		
Debt service	201,010	168,930		
Capital projects	<u>820,336</u>	<u>820,445</u>		
Total	<u>\$ 2,477,820</u>	<u>2,444,017</u>	<u>1,870,267</u>	<u>3,511,639</u>

See accompanying independent auditors' report.

City of West Liberty

Insurance in Force
June 30, 2004

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>	<u>Remarks</u>	<u>Policy Number</u>	<u>Term</u>	<u>Inception Date</u>
Employers Mutual Co.	Property Broad form company general	\$ 17,480,860 2,000,000	04/01/2005	90% cash value	8X9-30-44 Package	1 yr.	04/01/2004
	Business auto	1,000,000					
	Crime coverage						
	Loss inside premises	10,000					
	Loss outside premises	10,000					
	Boiler and machinery						
	Limit per accident	15,000,000					
	Inland marine	499,296		As caused			
	EDP			Included in property			
	Citizen band radios			Included in property			
	Contractors equipment form			Included in property			
	Miscellaneous property form			Included in property			
	Umbrella liability	5,000,000					
	Retained limit	10,000					
	Linebacker	1,000,000					
	Worker's compensation	500,000					
	Employee Dishonesty	25,000					
	Forgery	10,000					
The Hartford Accident and Indemnity Company	Volunteer firefighters		03/23/2005	Volunteer firefighters	83VP730207	1 yr.	03/23/2004
	Accidental death & dismember benefit	5,000		blanket			
	Accident total disability benefit	50		Accident policy weekly benefit Up to age 65			

City of West Liberty

Bond and Note Maturities
June 30, 2004

General Obligation and Revenue Bonds & Notes

Year Ending <u>June 30.</u>	<u>Pool Project</u> <u>Issued September 1, 2002</u>		<u>Street Improvements Bond</u> <u>Issued March 1, 2001</u>		<u>Library Construction Note</u> <u>Issued May 25, 2001</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2005	3.10%	40,320	4.60%	80,000	6.75%	84,849
2006	3.50%	43,680	4.70%	85,000	6.75%	10,135
2007	3.75%	43,680	4.80%	90,000		
2008	4.00%	47,040	4.85%	90,000		
2009	4.15%	47,040	4.90%	95,000		
2010	4.30%	26,880	5.00%	100,000		
2011	4.45%	30,240	5.05%	105,000		
2012	4.60%	30,240	5.10%	115,000		
2013	4.70%	33,600	5.15%	120,000		
2014			5.20%	125,000		
2015			5.25%	130,000		
2016		-	5.30%	140,000		-
Total		<u>\$ 342,720</u>		<u>1,275,000</u>		<u>94,984</u>

City of West Liberty

Bond and Note Maturities
June 30, 2004

General Obligation and Revenue Bonds & Notes

Year Ending June 30.	<u>Electric Revenue</u> <u>Issued September 1, 2002</u>		<u>Sewer Revenue Notes</u> <u>- Series 1995</u> <u>Issued March 1, 1995</u>		<u>Sewer GO Note</u> <u>Issued September 1, 2002</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2005	3.00%	255,000	7.35%	225,000	3.10%	19,680
2006	3.35%	265,000	7.40%	245,000	3.50%	21,320
2007	3.75%	270,000	7.45%	260,000	3.75%	21,320
2008	4.00%	285,000	7.45%	280,000	4.00%	22,960
2009	4.25%	295,000	7.50%	305,000	4.15%	22,960
2010	4.40%	310,000	7.50%	325,000	4.30%	13,120
2011	4.55%	320,000			4.45%	14,760
2012	4.70%	335,000			4.60%	14,760
2013	4.85%	355,000			4.70%	16,400
2014	4.95%	370,000				
2015	5.05%	390,000				
2016	5.15%	410,000				
2017	5.25%	435,000				
2018	5.30%	455,000		-		-
TOTAL		<u>\$ 4,750,000</u>		<u>1,640,000</u>		<u>167,280</u>

City of West Liberty

Computation of Legal Debt Margin
June 30, 2004

Actual Valuation at January 1, 2002	\$ 95,961,060
Times %	x 5%
Legal Debt Limitation	<u>4,798,053</u>
Debt Applicable to Limitation	
Outstanding General Obligation Bonds and Notes at June 30, 2004	<u>1,712,704</u>
Legal Debt Margin	<u>\$ 3,085,349</u>

City of West Liberty

Electric Utility
 Restricted Accounts Required By Bond Ordinance
 June 30, 2004

	<u>Account</u>			
	<u>Current</u>	<u>Future</u>	<u>Contingency</u>	
	<u>Debt</u>	<u>Debt</u>	<u>(Renewal and</u>	
	<u>Service</u>	<u>Service</u>	<u>Replacement)</u>	<u>Total</u>
Cash and Investments - Beginning of Year	\$ 164,507	471,000	580,108	1,215,615
Cash Receipts - Transfers From Operating Cash	<u>472,830</u>	<u>-</u>	<u>-</u>	<u>472,830</u>
Total Cash and Investments Available	<u>637,337</u>	<u>471,000</u>	<u>580,108</u>	<u>1,688,445</u>
Cash Disbursements				
Principal Payments	250,000			250,000
Interest Payments	<u>220,434</u>	<u>-</u>	<u>-</u>	<u>220,434</u>
Total Cash Disbursement	<u>470,434</u>	<u>-</u>	<u>-</u>	<u>470,434</u>
Cash and Investments - End of Year	<u>\$ 166,903</u>	<u>471,000</u>	<u>580,108</u>	<u>1,218,011</u>

City of West Liberty

Sewer Utility – Revenue Bond & Note
 Restricted Accounts Required By Bond Ordinance
 June 30, 2004

	<u>Account</u>			
	<u>Current</u>	<u>Future</u>	<u>Contingency</u>	
	<u>Debt</u>	<u>Debt</u>	<u>(Renewal and</u>	
	<u>Service</u>	<u>Service</u>	<u>Replacement)</u>	<u>Total</u>
Cash and Investments - Beginning of Year	\$ 118,279	300,000	270,179	688,458
Cash Receipts - Transfers In (Out) From Operating Cash	<u>344,925</u>	<u>-</u>	<u>563,737</u>	<u>908,662</u>
Total Cash and Investments Available	<u>463,204</u>	<u>300,000</u>	<u>833,916</u>	<u>1,597,120</u>
Cash Disbursements				
Transfers				
Principal Payments	210,000			210,000
Interest Payments	<u>132,297</u>	<u>-</u>	<u>-</u>	<u>132,297</u>
Total Cash Disbursements	<u>342,297</u>	<u>-</u>	<u>-</u>	<u>346,973</u>
Cash and Investments - End of Year	<u>\$ 120,907</u>	<u>300,000</u>	<u>833,916</u>	<u>1,254,823</u>

City of West Liberty
Sewer Rates and Customers

Number of Sewer Customers as of June 30, 2004: 1381

Sewer Rates as of June 30, 2004: \$2.55/1,000 gallons/month plus \$18.50 user fee/month
minimum for 0-1,000 gallons \$21.05

City of West Liberty

Sewer Net Revenues and Comparison to Debt Service

Sewer Proprietary Enterprise Fund:

Net Income for Year Ended June 30, 2004	\$ 163,640
Add: Depreciation Expense	179,433
Bond Interest Paid	<u>139,491</u>
Net Revenue for Year Ended June 30, 2004	<u>482,564</u>
Debt Service Requirements for the Year Ended June 30, 2004	342,297
Bonding Requirement Factor	x 125%
Minimum Net Revenue	<u>427,871</u>
Bonding Requirements in Excess of Revenue	<u>\$ 54,693</u>

City of West Liberty

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of West Liberty, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of West Liberty's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of West Liberty's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of West Liberty's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. There were no prior year reportable conditions . for item II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of West Liberty and other parties to whom the City of West Liberty may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of West Liberty during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

TAYLOR, REES, BECKEY & CO. P.C.
Certified Public Accountants
September 30, 2004

City of West Liberty
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements .
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Federal program expenditures for the year did not exceed \$300,000. A single audit of federal awards was not performed.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE: Not Applicable

REPORTABLE CONDITIONS: Not Applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the general government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted that represent a conflict of interest in accordance with Chapter 362.5(10) of the Code of Iowa.

IV-E-04 Business Transactions – Business transactions between the City and City officials or employees are noted as follows:

Name, Title, and Business Connection	Transaction Description	Amount
William Cline – Council Member HD Cline Company	Parts, Repairs, Minor Equipment purchases	\$ 2655

From our review of the purchases in accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with HD Cline Company do not appear to represent conflicts of interest.

IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-04 Revenue Notes – The City has complied with the revenue note and bond covenant provisions during the fiscal year ended June 30, 2004.

IV-J-04 Financial Condition – The TIF Urban Renewal, a special revenue fund, had a deficit balance at Jun 30, 2004 of \$158,431.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – The deficit was due to acquisition costs incurred prior to securing project financing. The deficit will be eliminated upon receiving proceeds from permanent financing.

Conclusion – Response accepted.